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PurchasingWorld

Transportation strategies

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Profile of the purchasing professional

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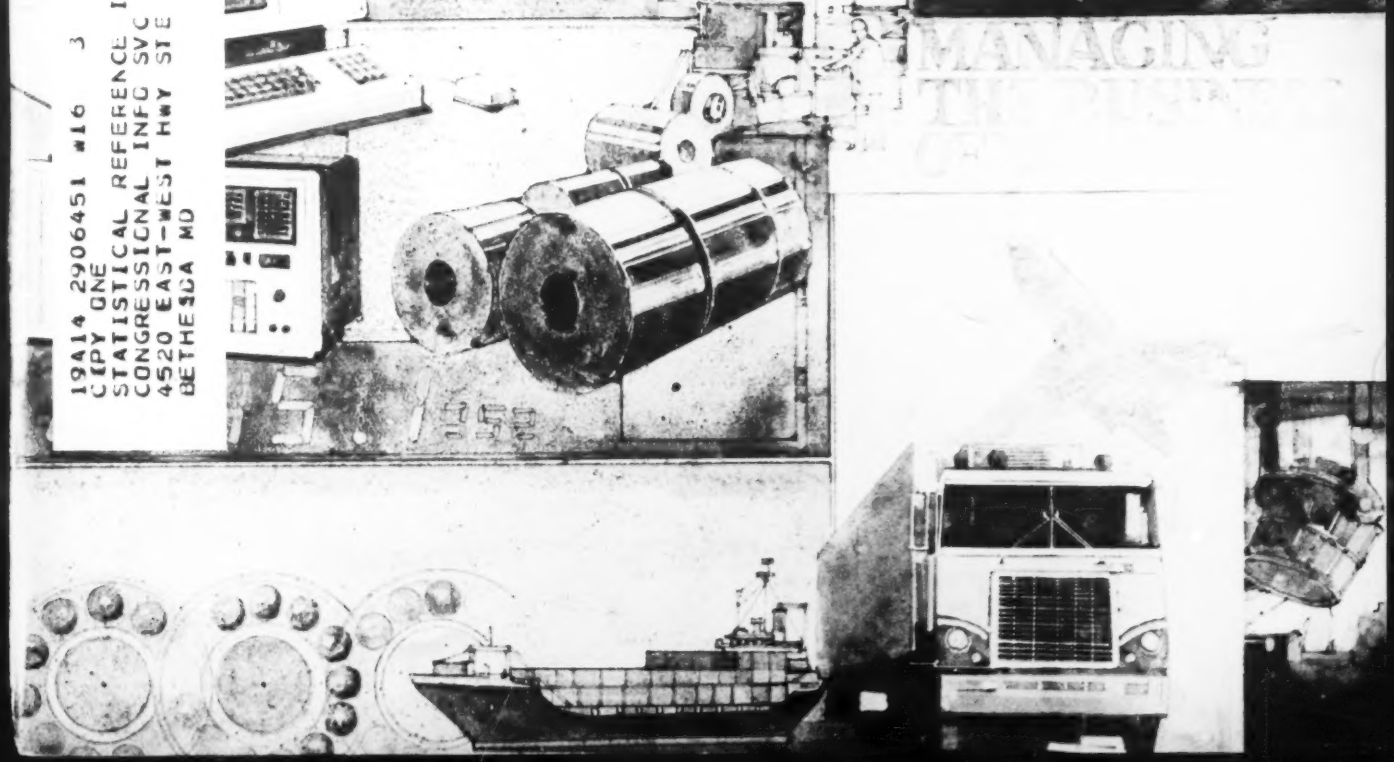

PurchasingWorld.

Vol. 27, No. 11 - November 1983

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PW PREDICTS

Robert S. Reichard, executive editor

1984 increases will be modest

Discount talk of any sizeable inflationary surge. That's not to say, of course, that there won't be some price acceleration as the economy continues to move up. (About 4% real growth is projected for next year—on top of the big 5%-plus racked up over the 12-month period ending fourth-quarter 1983.) But the increases should be modest by past recovery standards.

More important, all this optimism is based on more than just wishful thinking. Moderation is suggested by:

■ **Restrained wage demands:** There's little sign of any big jump here—as high unemployment rates (8-9% projected for 1984) continue to keep union demands within bounds. Indeed, in such high unemployment industries as trucking and airlines, wages are actually heading lower. White-collar salary gains are also likely to remain in the relatively low 6.3% range.

■ **Competitive pressures:** Buyers should still have considerable bargaining leverage—despite a slow creep up in factory operating rates (expected to rise into the low 80s by sometime next year). Credit this situation to a combination of factors, including: (1) deregulation—particularly in the transportation and communications sectors, (2) the increasing importance of productivity-oriented and often nonunionized hi-tech industries, and (3) continuing import bargains stemming from a still-strong dollar.

■ **Improving profit performance:** The combination of higher operating rates (which, other things being equal, reduce unit costs) and relatively small raw material cost increases promise much improved bottom-line performances—and hence less vendor pressure to post large, across-the-board price increases. After-tax profits are projected to rise 15% this year and 10-15% in 1984.

■ **Moderate food price increases:** Not even the recent drought has changed this appraisal all that much. Indeed, the average 1984 supermarket bill is expected to show only a 4-5% increase.

■ **Stable interest rates:** These will remain in the uncomfortable 10-11% range. But the point to remember is that they won't be going up, so there won't be any new upward pressure on price yardsticks—particularly on the cost-of-living index which is heavily influenced by mortgage rate fluctuations.

Econometric models would also seem to support this basically "no-sweat" inflation prognosis. Average the GNP price forecasts of three top forecasting models (Wharton, DRI, and Chase), and you come up with a less-than-5% increase for 1984—quite modest in view of the continuing GNP growth anticipated over the period.

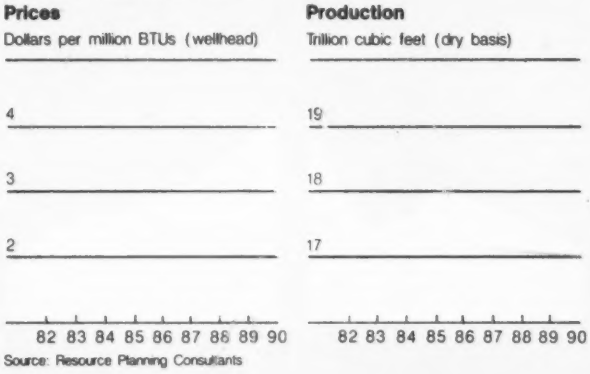
Steel (stainless)

Producers are making another attempt to reduce big distributor discounts on flat-rolled products—announcing new schedules that are targeted to go into effect in January. Plans call for these discount cuts: plate mill steel (from 30% down to 20%), and continuous mill plate (from 25% down to 15%). There's a fair chance the sheet hikes will hold. But the plate market, still held down by poor capital equipment demand, looks to remain shaky.

Steel (carbon)

Prices on flat-rolled sheet

Natural gas into 1990



Source: Resource Planning Consultants

The lull in natural gas and natural gas liquid prices isn't likely to last—at least not if you're talking about the longer run.

New estimates by Philip E. Watters (vice president of Resource Planning Consultants of Houston) provide the details. Speaking at a recent Energy Bureau conference, Watters puts the average wellhead price at $3/million BTU by 1986—some 15% above current (1983) estimates. And by 1990, the average quote should be up another 48% (to $4.45/million BTU).

The increases reflect expectations that the current supply glut will disappear. Other upward-tugging factors include continuing gradual decontrol of prices and declining domestic output which should be down to 17.1 trillion cubic feet a year by the end of the decade (versus 19.4 million tcf in 1981).

A similar outlook for natural gas liquids is projected. The cents/gallon forecasts here (1985 vs 1983): propane (53.4¢ versus 50.2¢), and ethane (38.1¢ versus 30.0¢). One exception is butane where a fractional decline over the two-year period is seen. But all should be up significantly over the subsequent five years—with the 1985-89 increases estimated as follows: propane (37%), ethane (46%), and butane (37%).

Copper

CURRENT SITUATION: The red metal continues to take its lumps—with prices off some 10¢/lb from recent spring highs. Part of the softness can be traced to disappointing demand. Glutted supplies are still another factor. Exchange-hungry Third World countries continue to produce as if there were no tomorrow, and some previously closed U.S. operations are being resumed. Add in lack of speculative interest, and it's easy to see why tags in recent days have dropped below 70¢/lb.

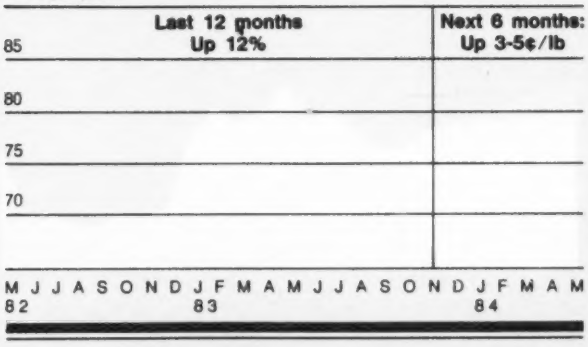
DEMAND: Even with some modest fourth-quarter gains, domestic shipments for 1983 as a whole should run only about 4% above a disastrous 1982. **Consumption, expected to rise 6-7%, isn't all that bullish either—given the precipitous declines of recent years.** Indeed, 1983 use totals should still be some 12% under 1978-1979 peaks. And it could take until 1986 or 1987 for consumption to reattain earlier peaks.

SUPPLY: The glut is here to stay. Total stocks are now well over 1.25 million tons. Any drawdown will be slow and gradual, so **1984 also looks to be another year of excess supplies.** Also reassuring on the supply front: Given current demand projections, Free World producers will still be hard put to justify anything above an 80% operating rate before early 1985.

PRICE OUTLOOK: Tags may be ready to bottom out (recent 70¢/lb quotes aren't nearly enough to recoup production costs that include 7-15¢/lb to cover pollution abatement). **But any large increase will be slow and gradual.** For example, it could well be the second-half of 1984 before prices reach the 90¢/lb level—as longterm demand rises only about half as fast as the 3-4% rate of the past few decades. **As for reachieving the old (early 1980) dollar-plus highs—that's still nowhere in sight.**

Copper cathode

Cents per pound



remain all over the lot—with not all buyers paying the recently posted 7% increase. Some big-volume users, for example, say they have received price protection at the old level as far as out December.

Demand, meantime, seems to be gradually improving—with fourth-quarter shipments now expected to top the 18.5-million-ton mark—up a fair amount from the estimated 17-million-ton third quarter. And next year, the industry is tentatively talking in terms of a good-sized 12-13% gain.

Computers

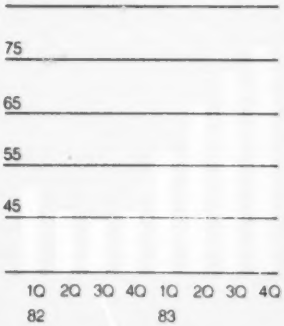
Look for more competition in the personal computer sphere—especally in the knee-top (14 lb or under) models aimed at the high end of the home and the low end of the business markets. By yearend, more than a half dozen outfits will be fighting for a piece of the action. Prices will range anywhere from $400 to $4000—but could slip significantly as the competition heats up. In another development, AT&T within six months is expected to challenge IBM's control of the PC market with its new system based on 32-bit technology. It's something that could well spark IBM price cuts.

Aluminum

Fundamentals are still strong—with quotes up 30-35% over the past few months. Producer ingot now commands over 80¢/lb—with comparably high tags for most fabricated lines. Producer orders, too, remain buoyant. Year-to-date advances are put in the 20%-plus range—and operating rates have moved over the 75% mark. Another plus: declining inventories—as Free World stocks drop more than 30% under year-earlier levels. But there should be enough to go around. As for future prices, a 90¢/lb ingot quote is still a good bet for mid-1984—especially if overseas demand also picks up.

Aluminum

(Market price, ¢/lb)



Zinc

Quotes have temporarily stabilized. True, U.S. consumption is up 12% over the first half, and the Chinese could double their imports (to near 200,000 metric tons). But much of this bullishness is offset by lackluster European demand. Counterbalancing factors are also noted in inventories where high LME holdings offset declining U.S. stocks. In any event, it's hard to make a case for any protracted

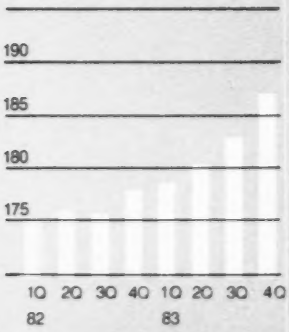
price runup. True, quotes could eventually move into the 50¢/lb range—but probably not before mid-1984.

Electronic components

Semiconductor orders continue to boom. Indeed, one recent estimate puts them as much as 50% ahead of shipments. Prices, too, have been firming—with the popular 64K dynamic RAM commanding $5-6/unit—nearly double the $3/unit low of a while back. But prices on some new lines could soon be coming down—the new 256K dynamic RAM (now around $100/unit) could drop to under $20 within a year or so.

Electronic components prices

(Index 1967 = 100)



Chlor-alkalis

Chlorine and caustic soda continue to go their separate ways. The latter, for example, remains quite soft, with prices in some geographical areas halved over the past year or so—falling to as low as $50/metric ton. Chlorine, on the other hand, has experienced five consecutive quarterly boosts—totalling near $100/ton (reflecting vastly improved downstream demand). But supplies, acording to buyers, are beginning to loosen up—suggesting a period of relative stability for this key inorganic chemical.

Fertilizers

Some fairly significant price increases could be in the offing for next year as consumption finally begins to move up. Use of nitrogen, for example, could be up 22% over the 1983-84 fertilizer year—with a smaller, though still substantial 15% increase anticipated for both phosphates and potash. The gains, if they materialize, could push ammonia, for example, into the $175-190/ton range by sometime next year—with area quotes moving up into the $168-183/ton range.

Silicones

Prices are beginning to move up—with scattered boosts ranging from 4% all the way to 20% on selected formulations. Behind the boost: a big 10-20% jump in buying by the auto and construction industries. But whether all will hold up is questionable—given the recent competitive pricing by G.E., reduced French quotes, and the threat of oversupply. On the latter score, both G.E. and Union Carbide have substantial capacity on the way.

Paper and products

CURRENT SITUATION: Markets are firming in paper, paperboard, and most paper packaging areas. Pricewise, most fine papers have moved up, or are in the process of doing so. Linerboard, meantime, has moved up to $290/ton—some $40 above early-1983 quotes. Solid bleached board is up about $30/ton—though some discounting is still reported. And while paper packaging tags haven't as yet moved up all that much, demand remains strong—with corrugated shipments up 6% so far this year.

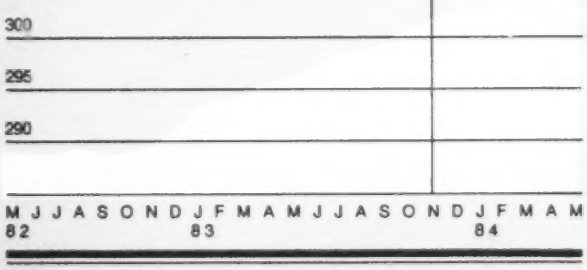
DEMAND: Overall paper and paperboard production should be up some 6% this year (to near 66.7 million tons)—with an outside chance of a 7% rise, if inventory building continues. Next year, linerboard demand could be up 5-7% as corrugated rises a similar amount. The outlook is also bullish for fine papers, where consumption could rise 4% above this year's estimated 7% advance.

SUPPLY: New capacity coming on stream will be modest. The most recent API estimate, for example, suggests 1.3% and 2.1% annual gains for board and paper, respectively, over the 1983-1985 period. Currently, utilization rates are still in the "no sweat" range—with averages for 1983 estimated as: unbleached kraft linerboard (92%), solid bleached board (91%), recycled board (78%), uncoated groundwood (87%), and coated papers (90%).

PRICE OUTLOOK: Improving market balance spells further—though moderate—hikes. Next year, linerboard prices could average $310-315/ton—well above the $275/ton 1983 average. This should put upward pressure on corrugated (a ***Purchasing World*** survey points to 3-7% advances). And a Wharton Econometric estimate puts the **average 1984 advance for all paperboard containers at near 4%.** As for fine papers, increases here will be modest, too—mostly in the tolerable 4-6% range.

Paper and products

Index: 1967 = 100



PW PREDICTS

Construction equipment

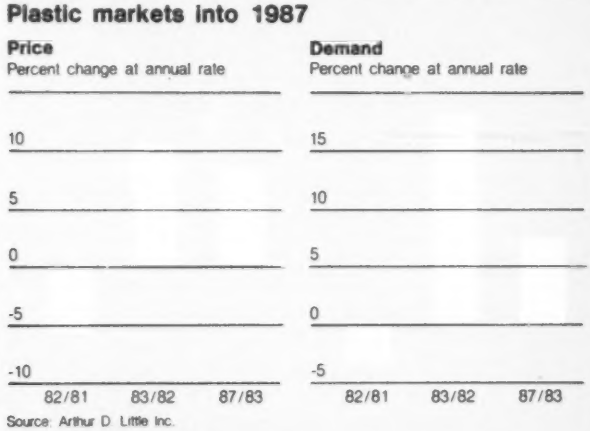
Still a buyers' market here—as one big firm starts offering $3000 rebates on some items. Other manufacturers, meantime, effect substantial discounts off lists which have remained substantially unchanged over the past few quarters. Behind the easiness: (1) failure of sales to increase despite the housing pickup, (2) slack export demand, and (3) heavy import competition. Weakest areas: Large equipment items used in heavy construction and coal mining.

Lead

A strong fall push has lifted tags well above the 15¢/lb low of late summer. Much of the upward impetus can be traced to better battery demand—with other factors including (1) reports of renewed Russian buying and (2) a big decline in U.S. producer inventories.

But the new higher tags could be vulnerable—given high LME stocks (well over 200,000 metric tons), less-than-firm LME quotes, and year-to-date declines in U.S. consumption. Given these latter factors, it may be mid-1984 or later that the heavy metal can approach the 30¢/lb barrier.

Plastic markets into 1987



Source: Arthur D. Little Inc.

Some fair-sized plastic resin price boosts may be in the offing over the next few years.

At least that's how analysts at Arthur D. Little see it. Presenting their views at the 9th Annual Conference on Plastics, they project an average price of 72¢/lb for these versatile synthetics by 1987—up some 20¢/lb from the estimated 1983 average and the equivalent of about an 8½% annual increase.

Based on the sharp declines of the past few years, however, these increases aren't all that big—especially if you factor in a 5% overall inflation rate. It means that in real terms prices will be advancing less than 4% a year—hardly enough, according to Arthur D. Little spokesmen, to move some product lines back into the black.

Demand increases, meantime, will continue to outrun overall economic growth—with about 58.5 billion lb of resin expected to clear the market in 1987—about 14 billion lb above estimated 1983 levels and the equivalent of about a 7% annual rate of gain.

One major assumption behind these forecasts: no new oil price runup. The assumption here is that oil prices in real terms will hold steady through 1984 and then rise gradually (1-2% a year) through 1987.

Polystyrene

Recent 3-5¢/lb price increases seem to be holding—on a combination of rising monomer costs (now up near 35¢/lb) and substantially improved end-use demand. Sign of the times: One vendor now lists its general purpose resin at 45¢/lb. Other lines are moving up, too—with ignition-resistant grades listed in the 90¢/lb-plus range. True, discounts are still available on many PS formulatons. But they're both smaller and becoming a lot harder to find these days.

Ethanol

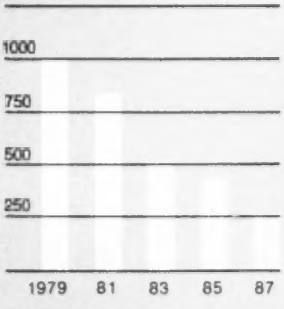
Prices of synthetic material remain under downward price pressure—both from increasing supplies of competing fermentation alcohol and cheap imported material. Shop around, and you can probably find material anywhere from 7-10¢/gallon under the official $1.70-1.80/gallon list level.

Computer terminals

Competition is keen—particularly from low-cost Asian suppliers. The average list price for so-called "dumb" (without computer capacity) terminals, for example, has dropped down to $500. And further declines seem certain, with another $100 or so expected to be lopped off the going quote by 1985. Declines are equally precipitous in 'smart' (limited computer capacity) types—where average prices are already under $1000 (some one third off levels of just two years ago).

Computer terminal prices

(Dumb—no computing ability)

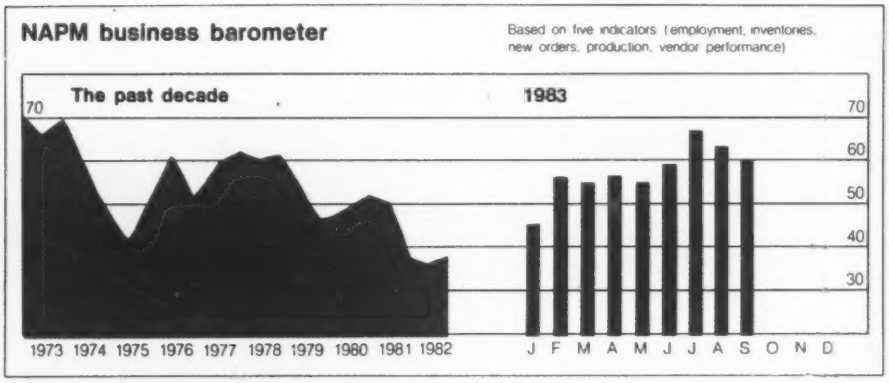


Source: Dataquest, Inc.

Synthetic fibers

The recent 7¢/lb increase in polyester staple is running into considerable flak. True, prices are up a bit—but more in the order of 4¢/lb, which birngs the going price up into only the 77¢/lb range. Behind the smaller increase: ample supplies and the recent easing in competing cotton quotes.

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1983
70
60
50
40
30
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Slower pace projected for GNP gains

Growth is still the name of the game. But there are a few spotty signs that the rate of increase may be slowing down a bit.

Right now it looks as if the current (fourth) quarter will show a real GNP advance in the order of 5% (seasonally adjusted annual rate). This rate is well under the big 8% increase racked up during the April-June period.

But most economists are actually cheering this new trend—seeing it as a sign that the economy is not overheating and that modest, sustainable advances will continue into 1984.

NAPM survey

One sure-fire sign of more moderate growth ahead comes from the NAPM Business Barometer. The bellwether index's latest 60 reading (chart above) represents the second consecutive monthly decline.

On the other hand, it's important to keep in mind that this key barometer of near-term change is still above the natural 50 mark.

Also indicative of less-than-sensational growth are still-high interest rates. While certainly down from the prohibitive levels of last year (top chart alongside), there is no indication that they'll fall back down to single-digit rates. The big problem here is the huge close-to-$200 billion Federal deficit, which will prevent a meaningful loosening up in credit policy.

On a more reassuring note, recent production and sales increases seem to have turned the inventory curve around. The increases in business stocks over the just-ended third quarter are relatively small ($5-10 billion at annual rate). Nevertheless, they're in sharp contrast to the steady paring of the previous six quarters.

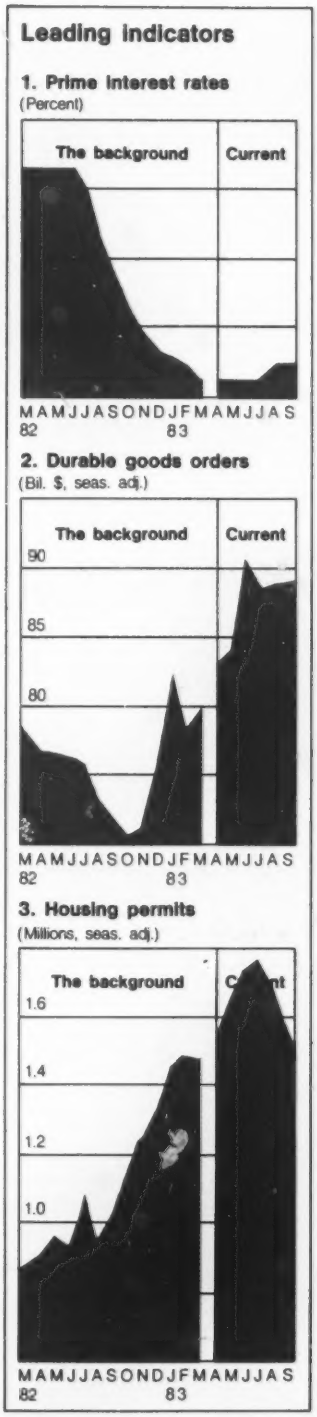
Inventories

This up-tilting inventory trend is also being helped along by continuing gains in new orders. On the durable goods front, for example, new bookings are coming in at near a $90-billion monthly rate (center chart)—close to $20 billion above the lows of last fall.

That's not to say that all sectors are booming. For example, capital equipment orders still leave a lot to be desired. But even here there are signs of improvement—with machine tool bookings up a bit over recent months.

Construction

Still another pleasant development has been the continuing good construction showing—with housing starts averaging well over 1.7 million units at annual rate over the past few months. On the other hand, some levelling off here is possible if housing permits (a lead indicator



of future activity) continue to drift lower.

But even if there is some slippage in housing, the longrun prognosis here is good. A recent Harris poll suggests that 13% of responding families will be in the market for a new home during the next two years—up substantially from the 8% who actually purchased one during the past two years.

Autos

The consumer buying potential, incidentally, also applies to autos. Some 31% of the queried households indicated they would buy a new vehicle during the next 24 months—again well above the 24% who actually bought one in the past two years.

Shift to larger cars

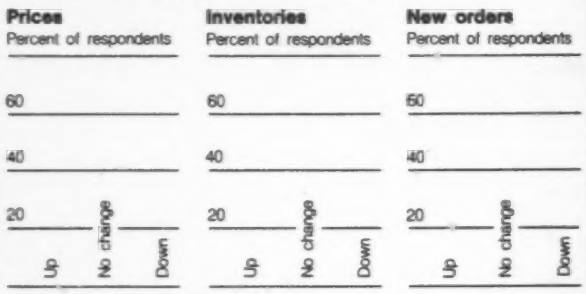
Bigger cars are "in" again. So say fleet managers responding to the new 1984 model National Association of Fleet Administrator's (NAFA) survey.

More to the point—they say that orders for larger vehicles (all except compact and subcompact) will make up a fairly substantial 42% of their overall purchases this year—up from only 30% in the year that just ended.

Other key trends suggested by the new survey:

- There's increased interest in manual transmissions. In fact, some 15 of the 174 fleets queried indicate they will order all units with manual transmissions on their 1984 new-car orders.
- Middle-of-the-line models will continue to get the big play (69%)—with only 20% and 11% opting for top and bottom-of-line models, respectively.
- Four-door sedans remain the most popular (79% of all new orders). And the percentages for other body styles: Two-door sedans (11%), station wagons (7%), and hatchbacks (2%).
- Financial leases are the overwhelming (90% of respondents) choice when it comes to type of contract. Only 7% and 3% opt for net leases and maintenance leases, respectively.

The fourth quarter: a vendor view*



* 4th qtr. 1983 vs. 4th qtr. 1982 for all manufacturers
Source: Dun & Bradstreet

Business expectations

The nation's top business executives remain bullish on America. That's what some 1442 managers recently told Dun & Bradstreet survey takers.

Some 72% of those queried, for example, note orders moving up over the last three months of the year (compared to a year earlier)—with only a miniscule 4% actually expecting a decline.

Prices

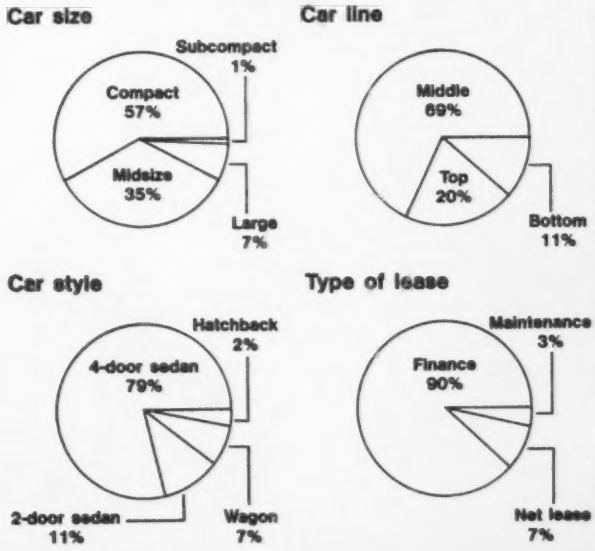
Equally encouraging is their view on prices. While 41% see increases relative to a year earlier, this figure isn't all that large given the extent of the business pickup. More significant, for instance, is the fact that 56% anticipate "no change" with an additional 3% expecting a decline.

Inventories

These top-line executives also confirm projections of a slow inventory turnaround. Specifically, some 43% now plan on fourth quarter gains—versus another 43% seeing no change and 14% planning on further cutbacks.

It's all summed up in the D & B "optimism" index (the percent expecting sales to increase minus those expecting a decrease). The latest reading here is 72—the highest level since 1979.

How 1984 fleet car purchases shape up



CURRENT PRICES

Slight dip in recent averages

There's more good news on the producer price front. September industrial averages, for example, actually slipped fractionally under month-earlier levels. As these prices normally rise after the summer lull, this decrease has to be regard-

ed as strong proof that inflationary fires are still pretty much in check.

Offsetting trends

As in the past few months, the good showing can be traced to offsetting trends. On the energy front, increases in home heating oil, residual oil, and natural gas were balanced out by declines in gasoline and liquid petroleum gas.

And a similar situaiton is noted in chemicals. Some organics have edged higher, but others remain quite soft. In the inorganic area, stronger chlorine was blunted by further easiness in caustic soda.

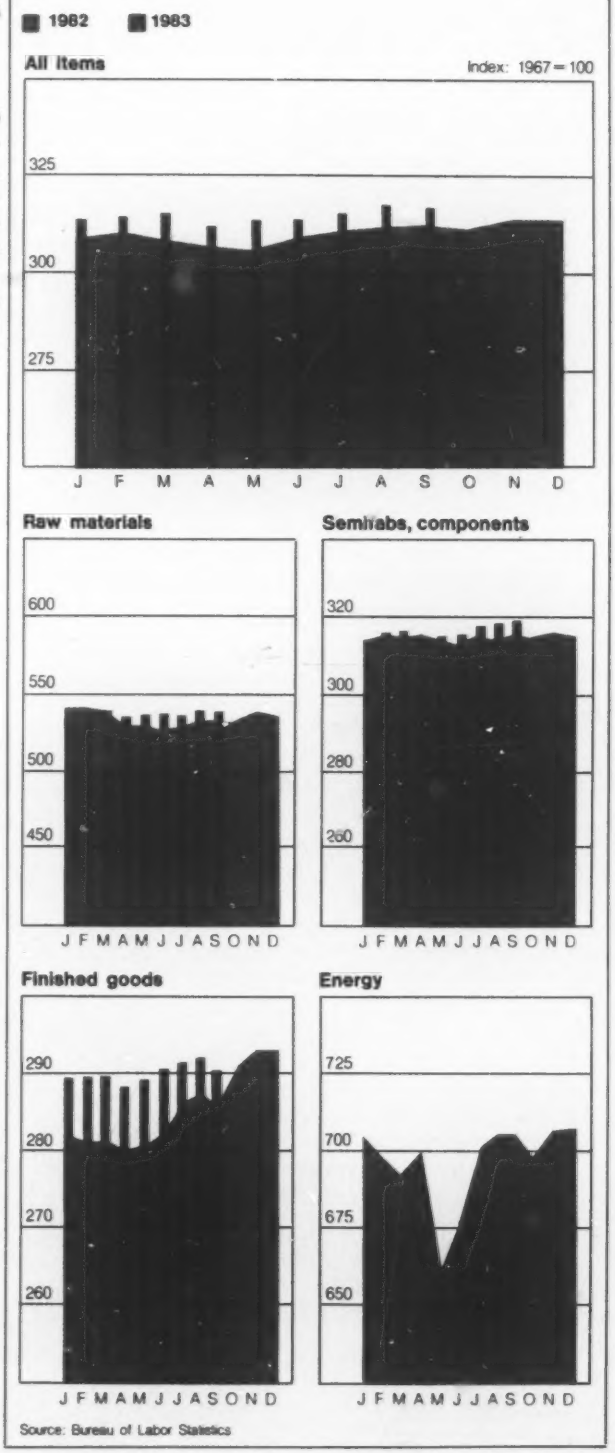
Capital equipment

Capital equipment also suggests plenty of bargaining leverage for buyers. While service industry machinery moved up, declines were noted for machine tools, mining machinery, and heavy trucks. More significant, the overall capital goods price index

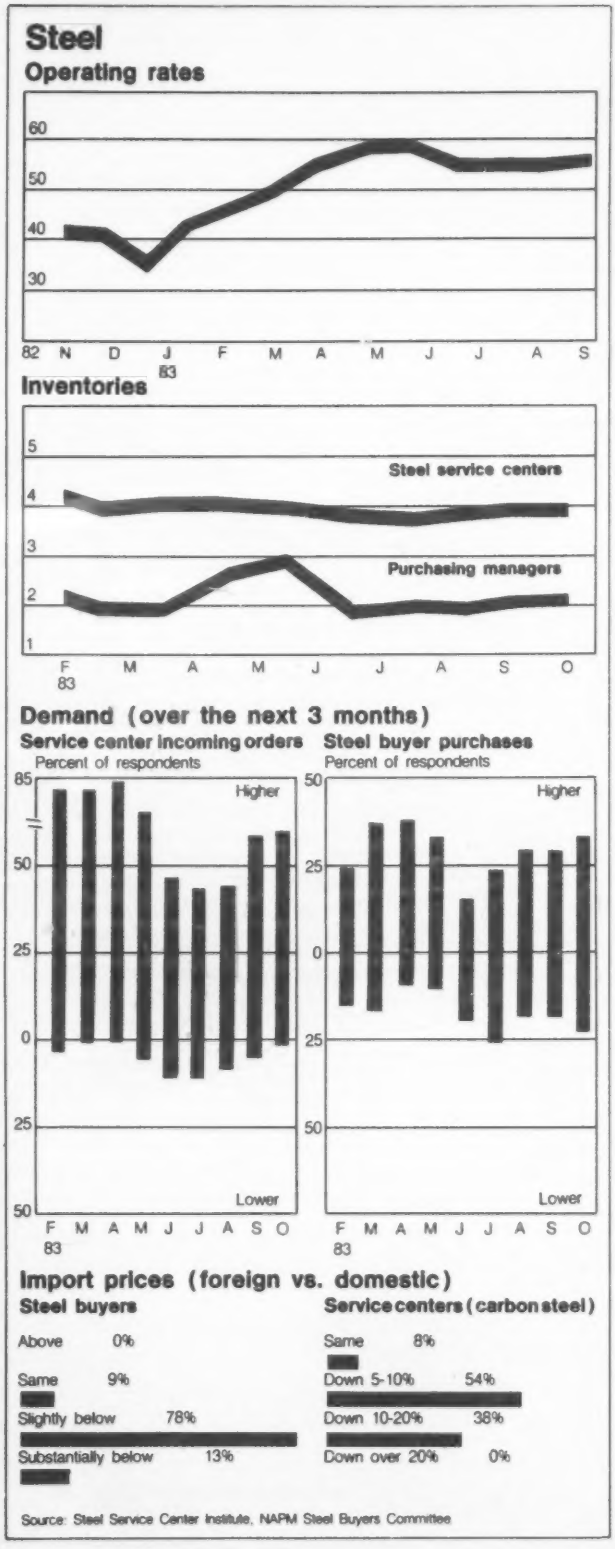
This month's breakdown

	Latest level (Sept)	% change from: Month ago	Year ago
Bearings	332.2	0.4	-0.9
Bolts, nuts, etc.	266.6	-0.6	-6.6
Chemicals, inorganic	290.9	-0.6	-6.6
Chemicals, organic	373.2	-0.6	2.9
Concrete products	302.8	0.2	1.4
Corrugated cartons	243.7	0.5	1.5
Cutting tools, small	278.4	0.0	0.7
Electrical instruments	274.8	0.0	9.8
Electric lamps (bulbs)	326.7	4.2	12.7
Electronic components	185.4	0.1	5.6
Fans and blowers	337.1	0.0	0.1
Foundry and forge products	350.7	-0.0	1.8
Fuel oil (residual)	1174.9	2.0	4.8
Furniture, commercial	248.72	0.2	3.4
Gasoline	620.6	-0.9	-9.4
Glass, flat	229.6	0.0	3.8
Glass containers	351.2	0.0	-2.1
Gypsum products	295.7	2.2	16.5
Hand tools	345.4	0.0	-0.3
Hand tools, power driven	220.4	-0.0	-1.0
Industrial furnaces	362.7	0.1	2.1
Integrating and measuring instruments	223.6	-0.0	5.5
Internal combustion engines	340.2	0.4	1.3
Lubricating oil	776.0	0.0	-12.6
Lumber millwork	305.7	-0.6	9.4
Material handling equipment	285.3	0.1	-0.1
Metal containers	338.3	0.1	2.9
Metal mill shapes (nonferrous)	315.0	1.0	2.4
Metal tanks	305.2	-0.4	-2.2
Motors and generators	334.0	0.1	7.3
Motor trucks (10,000 lb and under)	301.2	-4.0	4.1
Office and store equipment	154.7	0.0	1.4
Paperboard	252.8	1.0	0.8
Paper boxes and shipping containers	248.5	0.2	0.0
Paper office supplies	226.8	0.0	0.4
Paint	264.5	-0.5	-0.1
Plastic resins	293.1	-0.3	4.1
Precision measuring tools	245.5	0.0	2.3
Pumps and compressors	345.8	0.1	-0.7
Refractories	340.7	0.2	0.0
Rubber belts and belting	329.5	0.3	2.9
Scales and balances	228.3	-0.1	0.6
Steel products	354.4	1.7	2.3
Switchgear	269.9	0.1	2.3
Textiles, synthetic fibers	158.6	0.1	-2.4
Textiles, gray fabrics	147.1	0.3	2.4
Tires and tubes	242.5	0.0	-5.1
Transformers and power regulators	224.6	0.5	2.1
Welding equipment	273.0	0.1	-2.0
Wire and cable	203.8	-0.3	2.0

Industrial prices at a glance



Source: Bureau of Labor Statistics



eased a bit.

And even construction materials—despite a booming housing market—have been held in check. Cement, asphalt roofing, and gypsum boosts were offset by some rather sizeable declines in lumber and plywood.

Auto prices, too, were clocked in at a lower level in September. Labor Department spokesmen say that this reading is basically a one-shot affair—reflecting end-of-1983 model clearances. Citing recently posted boosts on new 1984's, they expect the auto index to be up about 2% over the fourth quarter.

STEEL SURVEY

Higher demand is expected

Fourth-quarter steel demand should be up fairly significantly, according to service centers and buyers. On the latter front, some 32% of buyers responding to a new NAPM survey expect to increase their receipts of the metal during the next few months—substantially above the 23% who feel they may reduce their overall intake.

Service centers

Distributors are even more bullish on this score. Some 59% responding to the latest Steel Service Center Institute (SSCI) survey look for an increase in their incoming orders in the next few months—with the biggest improvement anticipated in the Great Lakes and Rocky Mountain areas. In sharp contrast, only 2% see declining business.

The upbeat distributor outlook is also confirmed by SSCI president Andrew Sharkey who notes that overall shipments so far this year are running better than 9% ahead of the 1982 pace. He adds that the big thrust is coming from the auto, appliance, and information processing markets.

Price cuts

Despite the service center demand improvement, price cutting remains quite severe. Sharkey, for example, describes the market as being "highly competitive with industry profits still not commensurate with the improved shipping levels."

A few distributors single out stainless as being particularly vulnerable—noting that stainless tubing yields a margin of less than 2% over costs. Galvanized sheet, on the other hand, has improved a bit according to other industry spokesmen.

Imports

But the latter seems to be one of the few exceptions—with price pressures forcing some distributors to put increasing emphasis on cheaper imports.

Preston M. Green, president of the Association of Steel Distributors (another trade group) observes that his own company has had to increase purchases of foreign steel from "almost zero" to 20% this year to remain competitive.

The lower price of foreign steel is also confirmed